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JULIKA BAKE, SIMON RUNKEL, ROB SCHEID

SOCIO-ECONOMIC ASPECTS OF PEACEBUILDING

CORRUPTION, INFORMAL LABOR AND BRAIN DRAIN IN BOSNIA AND HERZEGOVINA

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KONTAKT:

Zentrum für Konfliktforschung
Philipps-Universität Marburg
Ketzerbach 11
35032 Marburg
Telefon: 0 64 21 / 28 24 444
konflikt@staff.uni-marburg.de
www.uni-marburg.de/konfliktforschung

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THE AUTHORS

Rob Scheid, *1982, Bachelor of Science in International Management, Master of Arts in Peace and Conflict Studies. He is currently working at Atlantik-Brücke e.V. in Berlin. His prime research interests are the interdependence of economy and politics in post-war societies, transitional justice, as well as the prosecution of war crimes and the culture of remembrance in post-war Italy.

Julika Bake, *1981, Bachelor of Arts in Cultural Sciences, Master of Arts in Peace and Conflict Studies, is a research assistant at the University of Augsburg, Germany. She focuses on the dynamics of post-conflict environments (transitional justice, economic aspects) as well as on security politics and military socialization in Germany.

Simon Runkel, *1985, is a student of Geography, Psychology, Peace- and Conflict-Studies, and Art History at Philipps-University Marburg, UC Los Angeles and now University of Bonn. He specializes in the economic geography of transition and post-war countries.

JULIA BAKE, SIMON RUNKEL, ROB SCHEID

SOCIO-ECONOMIC ASPECTS OF PEACEBUILDING – CORRUPTION, INFORMAL LABOR AND BRAIN DRAIN IN BOSNIA AND HERZEGOVINA

– EXECUTIVE SUMMARY –

More than a decade after the Dayton Peace Accords, the question remains whether peace in Bosnia and Herzegovina (BiH) will sustain. Assuming that the economic prosperity plays a crucial role for a successful peacebuilding process, this Working Paper addresses the potential and the risks of economic development, focusing on three particular aspects: corruption, informal labor and the brain drain phenomenon.

Rob Scheid shows that corruption is an endemic problem concerning governance, civil society, and the economy in BiH. He outlines examples of the various forms corruption takes and discusses steps taken to combat this issue, arguing that corruption's detraction from economic development prolongs the peacebuilding process. Julika Bake deals with the phenomenon of illicit labor, which is seen as one of the major obstacles to economic prosperity in BiH. She argues that besides macroeconomic recovery and labor policy, the links between local political elites and informal employers have to be taken into account to successfully create formal employment. Simon Runkel addresses the difficult labor situation of young people and the resulting emigration, particularly of the well educated. In his opinion, reforms in the fields of education as well as private investment are necessary to facilitate the return of emigrants and to benefit from the positive long-term effect of the so-called brain drain phenomenon.

All three sections of this Working Paper hold that the peacebuilding process would benefit to a great extent from the strengthening of formal economic relations, the weakening of links between the economic and political spheres, especially on a local level, as well as from the creation of job opportunities. Although economic prosperity and sustainable development often seem beneficial they do not appear to be a primary concern in peacebuilding. This paper shows that economic aspects are crucial to the question of whether peace will stay and last in Bosnia and Herzegovina.

JULIKA BAKE, SIMON RUNKEL AND ROB SCHEID[0]

SOCIO-ECONOMIC ASPECTS OF PEACEBUILDING - CORRUPTION, INFORMAL LABOR AND BRAIN DRAIN IN BOSNIA AND HERZEGOWINA

Introduction

"Nothing, I repeat nothing, worries me more than this country's economy."

Paddy Ashdown, then High Representative, before the Bosnian parliament in December 2002

Thirteen years after the Dayton Peace Agreement (DPA) it is still uncertain whether peace in Bosnia and Herzegovina (BiH) will be sustainable. The presence and the powers of the international community in BiH have enforced a political system that, though weak, manages to channel previously violent ethnic conflicts through institutional mechanisms. With political institutions established and more or less functioning, political power and responsibility are currently being transferred from the international administration, mainly the Office of the High Representative (OHR) [1], to state and entity[2] institutions.

Meanwhile, Bosnia's economic situation remains fragile. At the end of the war in 1995, BiH had to catch up on the transformation to a market economy that its fellow former Socialist countries in Central and Eastern Europe had begun years before, struggling with issues such as privatization and job creation. In addition to that, however, it faces the challenges of a post-war economy, including informal markets as well as the demobilization and economic reintegration of soldiers. These are formidable obstacles for a state as severely disrupted by war as Bosnia and Herzegovina: approximately 100,000 people died (Research and Documentation Center Sarajevo 2008), more than a million (one-fourth of its inhabitants) were internally displaced (Calic 1995: 238), and the war damage to the infrastructure was estimated to be at least 20-30 billion US Dollars (US General Accounting Office 1997: 19).

While international aid has started to decrease significantly in recent years, the economy is still not back on track. In 2002, the real gross domestic product (GDP) lagged at approximately three quarters of the 1989 level with an annual growth rate of 3.8 percent that failed to reach even the "worst case" objective of 5 percent outlined by the World Bank in 1997 (European Stability Initiative [ESI] 2006: 78-79; World Bank 2005a: 4).[3]

Here the question of a link between economic growth and a sustainable peace remains. As early as 1992 UN Secretary General Boutros Boutros-Ghali's Agenda For Peace mentioned the handling of underlying economic problems as one of the preconditions for durable peace (par. 57). The exact causes and effects, that is the manifestation of the interdependence of economic development and sustainable peace, is still unclear, as "there has been no systematic analysis of the contribution of economic factors to the success

0 The three authors participated in the graduate course "Analyzing Post-Conflict Environments – The Case of Bosnia and Herzegovina" in the summer term of 2006 and a follow-up research workshop, both taught by Christian Braun and Kai Hebel. This Working Paper draws on the course and particularly the seven-day excursion in July 2006 during which Simon Runkel and Rob Scheid met representatives from different international and national organizations in Sarajevo for information sessions and interviews.

1 It must be noted that the OHR, while responsible under Dayton for a majority of the post-war oversight and coordination functions in BiH, was not initially responsible for economic development. Now, however, this has become one of the OHR's tasks.

2 As a federal state, BiH is divided into two entities - the Federation of Bosnia and Herzegovina (FBH) and the Republika Srpska (RS), as well as the district of Brčko. Each of the entities has its own constitution, parliament, government and police system, among others.

3 The enormous amount of international aid pumped into Bosnia did not kick-start the economy as hoped. It only led to a deceiving annual GDP increase averaging 40 percent from 1996-1999 and generated little new employment outside the public sector (ESI 2006: 83).

or failure in the implementation of peace agreements." (Woodward 2002: 183).[4] Similarly, there does not seem to be an agreement on the "appropriate economic strategy specifically addressed to the tasks of implementing peace agreements and the first years after war" (Woodward 2002: 185). However, there seems to be a consensus among scholars and practitioners in the field that economic success is essential to building peace.[5] Woodward argues that "while armed hostilities may cease, growing economic inequalities and hardship can fuel increased violence from crime or social crises after the peace agreement, thus substantially complicating the tasks of building peace and stable government" (Woodward 2002: 184).[6]

Based on an analysis of the varying links between economy and conflict, both the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) and International Alert acknowledge economic factors of peacebuilding (Mierke 2006: 5; Gündüz/Vailant 2006: 8). The GTZ concludes that development projects should aim to (1) address causes of conflict or factors that increase the risk or duration for violent conflict, e.g. by supporting economic growth and poverty alleviation, reducing [horizontal] inequality such as between regions or ethnic groups, decreasing the dependence on primary commodities and broadening the economic base by diversification and industrial development, reducing the financial resources for conflict, as well as (2) to enhance factors contributing to conflict prevention, peacebuilding and reconciliation, e.g. by supporting the ability to participate in and benefit from trade, and promoting reconciliation and trust building (Mierke 2006: 5).

"(Therefore) a thriving economy is essential to building peace. The jobs it generates, the livelihoods it sustains, the opportunities it delivers and the relationships it can help to build are all critical to giving societies a stake in a non-violent future. Trade within and between countries is not just a driver of economic growth but can also serve to establish or re-establish personal and business connections across conflict divides." (Gündüz/Vaillant 2006: 36)

In this Working Paper, we will not examine the landmark issues of the economic sphere, let it be poverty reduction, private sector development or trade development. Instead, we focus on three rather specific, yet interrelated aspects of the current state of the Bosnian economy. First, Rob Scheid examines the role of corruption in the BiH economy, including the serious problem it poses for establishing legitimate institutions. He outlines examples of the various forms corruption takes and discusses steps taken to combat this issue, arguing that corruption's detraction from economic development prolongs the peacebuilding process. Next, Julika Bake examines informal labor from an economic and a cultural angle and indicates policy options for tackling it. She argues that a control or reduction of informal labor can only be achieved through a set of culture-sensitive measures in addition to traditional macroeconomic policy. In the third and final part, Simon Runkel analyzes the challenges and perspectives for Bosnia and Herzegovina's economy and education system regarding the issue of brain drain. He concludes on a counter-intuitive note, emphasizing the potential positive long-term effects of the phenomenon – remittances, transnational networks and the likelihood of returnees starting a business in BiH.

While economic prosperity does not provide an easy solution to many of the country's problems – and likewise does not automatically correlate with the success of the peace building process - we argue that a better handling of the specific issues we address could contribute to greater economic prosperity and thereby make an overall positive contribution to sustainable peace in Bosnia and Herzegovina.

4 Pointing out the limited success of generous economic cooperation programmes e.g. in Afghanistan, the Non-governmental Organization (NGO) International Alert points out that there is a clear need to better understand how a peacebuilding approach to such economic interventions can be achieved in practice, and how they can be made conflict-sensitive. International Alert has been conducting a research project on the positive potential of economic interventions, gathering a collection of country case studies on the international community's activities in this field, as well as carrying out expert consultations and policy-research (International Alert Website).

5 At the same time, scholars and practitioners are aware that economic factors often also contribute to conflict to a crucial extent.

6 According to her, three economic tasks are necessary to implement a peace agreement: (1) sufficiently rapid economic revival to buy confidence in the peace process, (2) funding to implement specific commitments in the peace agreement and (3) the economic foundations necessary to sustain peace over the long term (Woodward 2002: 185).

A) The Extent and Implications of Corruption in Bosnia and Herzegovina *by Rob Scheid*

Corruption is one of the primary impediments to development in both rich and poor nations across the globe. According to Transparency International (TI), corruption undermines economic growth and sustainable development at the state level. It does this by discouraging foreign investment, undermining domestic institutions, and weakening the rule of law (TI 2007).

Throughout this section of the working paper, it will be demonstrated that corruption is one of the most important problems facing Bosnia and Herzegovina's peace building efforts. Specific to BiH, corruption also inhibits successful implementation of the DPA (Marquis/Gall 2000), thereby potentially undermining democratic control by prolonging the international community's role in national decision-making processes and slowing its handover of control to domestic institutions. The United States Government Accountability Office (2003) found "near consensus opinion among officials (...) interviewed that endemic crime and corruption in Bosnia" is a serious problem and "that until the situation is satisfactorily addressed the conditions for the complete withdrawal of the NATO-led force will not be met." Although the NATO Stabilization Force (SFOR) transferred control to EUFOR on December 2, 2005, the continuing presence of international troops underscores the ongoing necessity of oversight and a lack of domestic control, for which corruption acts as a perpetual hindrance.

The following section will look at the general problem of corruption and will be followed by an extrapolation of these general arguments in terms of the situation in BiH, specifically on three levels, namely *Corruption and Governance* (1.1), *Economic Issues* (1.2), and *Civil Society Concerns* (1.3). The types of issues have been divided into sub-categories in order to provide a better overview of the various effects of corruption on the nation's development. The next section will look at efforts undertaken to combat corruption in BiH, including specific strategies and accords, and will conclude with an assessment of these measures. Thereafter, a brief conclusion will consider the overall problem and future outlook of corruption in BiH.

1. The Importance of Combating Corruption for Future Economic and Political Development

The ten-year anniversary of the Dayton Accords in 2005 sparked several analyses of the current state of BiH. Though conclusions on the country's status differ across various fields, several political assessments fail to mention corruption as one of the most important aspects, although they address several other areas of reform (Kim 2006). In fact, neither the OHR nor other critical international actors in Bosnia have drafted a full report on the extent of the country's corruption problem (Chandler 2003: 4). This fact makes the availability and reliability of data poor. Research must rely primarily on media reporting on the issue, which is selective and – as we will see – the media can also fall victim to corruption in BiH. Additionally, various reports are available from NGOs present in the country, which should also be analyzed carefully due to the wide-ranging scope of interests that NGOs represent and the potential connection with donor interests. Although no comprehensive reports are available, both former High Representatives (HR) Ashdown and Westendorp have cited corruption as the most pressing issue facing development (Karatnycky/Motyl 2000: 160), while former HR Westendorp's Office developed a comprehensive strategy to combat corruption (OHR 1999). This may seem counterintuitive, yet it only means that analyses of the specific corruption problems have not been widely published, although a plan was developed to fight the overarching problem (that was later abandoned). The fact that BiH ranks at number 93 out of 179 on TI's (2006) Corruption Perception Index (CPI), along with Argentina, Armenia, Eritrea, Syria, and Tanzania, further supports the critical nature of this issue. It must be noted that this index is measured by a variety of factors, including opinion surveys and expert assessments. Additionally, "over 50% of Bosnian citizens believed corruption was prevalent in government and business. However this is consistent with similar polls in Central and Eastern Europe" (Chandler 2003: 4). To briefly compare BiH to other Balkan countries, these nations can be found at positions 28 (Slovenia), 69 (Croatia), 90 (Serbia) and 105 (Macedonia). This range is quite large, but all countries, with the exception of Slovenia, fall between indicators that show high levels of perceived corruption.

As one of the greatest overarching issues impeding political and economic development in BiH, corruption is a problem both inherited and nurtured by the course of events in Bosnian history. The transformation from a planned to a market economy has brought to light the lack of transparency in government and business practices alike. According to a Nations in Transit (1999-2000: 139) report, "privatization has made little or no progress in the post-Dayton period, largely because the socialist system of economic management in place from the old system works to the advantage of the ruling parties." In addition to problems with transformation, the formal economy collapsed during the war, leaving a thriving black market

and production levels that have yet to match pre-war levels (Chandler 2003: 3). The war caused the economy to "largely disintegrate along ethnic lines, with Bosnian and Croat areas oriented towards trade with Croatia, and the RS oriented towards trade with Yugoslavia" (Karatnycky/Motyl 2000:139). The report states that, as a result of many of these factors, "many officials were claiming that corruption in BiH's political system had become the primary impediment to economic reform" (Karatnycky/Motyl 2000: 139).

Before further analyzing the problem of corruption, it is necessary to define the term. According to Vito Tanzi (2002: 11), former Director of the Fiscal Affairs Department of the International Monetary Fund (IMF), "the most popular and simplest definition of corruption is that it is *the abuse of public power for private benefit*." The typical definition used in academic works is that of the World Bank, exchanging "power" in Tanzi's definition for "office." In this work the IMF definition will be used, as not all examples of corruption cited can be traced directly to public office, but rather the overarching concept of systemic corruption that is influenced by public power abuse.

An important factor to note, when looking at the issue of corruption, is the problematic divide between "public" and "private" spheres that did not exist in socialist countries. One of the most important factors for analyzing transformation in post-socialist nations is the gray area created due to the symbiosis of these two spheres under socialist rule. In some cases, issues with corruption can be explained by this lack of separation. The problem is therefore that these areas have not yet been separated to function according to different logics. This should be kept in mind when looking at the issues presented in this paper.

The following sections delineate corruption into three subcategories: governance, the economy, and civil society. The analysis of corruption from these three perspectives attempts to provide a framework for further analyzing corruption based on the thematic field it affects. Here it should also be noted that the examples cited cover many levels and degrees of corruption and span a wide range of issues, including: clientelism, embezzlement, human trafficking, bribery, tax evasion, and informal labor. While some of these problems have a criminal nature, others indicate less severe problems. These examples serve to highlight the systemic issues present that allow for such a range of problems. While some examples denote criminal behavior, it is the structural framework that allows for this behavior that should be highlighted in this paper.

1.1 Corruption and Governance

This section focuses on the "top-down" effects of corruption. In this section, systemic problems will be touched upon, including the rule of law and transparency of government institutions.

Chandler states that "the root cause of corruption was Bosnia's political leadership" (Chandler 2003: 3). Additionally, former IMF director Vito Tanzi concludes that "corruption cannot be substantially reduced without modifying the way governments operate, and in this sense, the fight against corruption is linked with the reform of the state" (Abed/Gupta 2002: 11). This underlines one of the most common and important approaches to analyzing and ultimately combating corruption. Next, it is necessary to examine the extent of government corruption in BiH and its effects. Here a distinction must be made between corruption within the government and corruption facilitated by a deficiency in the rule of law. This section addresses both types.

It must first be considered that the framework under which corruption in governance in BiH has taken root comes from a combination of historical developments – the previously outlined structure inherited by the former socialist system, the collapse of the formal economy during the war, and the decentralized structure of governance established by the DPA. The combination of these three systems facilitates a lack of accountability. This has created a system based on "'rule of party' rather than 'rule of law,' and an absence of accountability and transparency let alone a culture of consultation and consensus building" (Chandler 2003: 3). According to Nations in Transit (1999-2000: 160), "official corruption in Bosnia and Herzegovina is widespread, involving government officials at the highest levels, their families, and subordinates in the governmental bureaucracies." This problem was also summarized by Richard Holbrooke, then U.S. ambassador to the UN and leading negotiator of the Dayton Agreement, who said in November 2000 that Bosnia's leading politicians were "crooks pretending to be nationalists" (Chandler 2003: 4). These quotes taken together emphasize the extensiveness of the problem of corruption in the public sphere, or rather that the public sphere is not legitimately public, due to its private use and abuse by officials.

The most prevalent example of high-level political corruption is the use of international funds to cover lost tax revenues or government funds lost to crime and corruption. The estimates given are not satisfactory assessments of the extent to which these losses occur, as it is usually a simple approximation based on the amount of international funds provided to cover budget deficits (Chandler 2003: 4). According to the USGAO (2000: 2-3), "the inter-

national community has provided about $ 407 million in budget support to cover Bosnia's budget deficits, and most of this support is not controlled or audited. Consequently, the international community cannot be sure how the money it has provided is spent." This raises the question regarding the potential misappropriation of international funds. While covering budget deficits and not properly accounting for appropriated money is a concern, many agree that direct fraudulent usage of funds is not a major concern due to the preventative mechanisms in place. In contrast to its previous statement, the USGAO (1999: 2) concurs in the same report that "international assistance (...) is generally not being lost to fraud and corruption" due to the extent of internal and international controls. The New York Times (1999) nevertheless reports that "up to $ 1 billion has been stolen from international aid projects or has disappeared from public funds or been lost through Bosnian officials' failure to collect taxes." However, this claim disregards the difference between active abuse and the passive loss of funds due to failure to collect. The USGAO report finds little evidence of the former. The press article could have referred to the loss of $ 900,000 by the U.S. Embassy in a situation in which a local bank failed. It is believed, however, that this money is fully recoverable (Chandler 2003: 4).

Other governmental problems include the extension of corruption to affect the media. An independent media is a cornerstone of a functioning democratic society, which entails the ability to report on critical and controversial topics without interference. According to one report, "nationalist parties (...) found many ways to intimidate the press" (Committee to Protect Journalists 2000). The report includes several examples, citing "138 press freedom abuses between November 1999 and October 2000" (Committee to Protect Journalists 2000). These violations include direct threats and physical attacks for reporting against ethnic groups on issues such as war crimes. Also, indirect abuses can be found, such as the slow processing of legal cases and the misuse of legal powers such as tax inspections to threaten or, in the case of one newspaper, delay printing. According to the report, these abuses are primarily divided along ethnic lines and encompass all groups in one form or another (Committee to Protect Journalists 2000).

Forced prostitution is also a major concern not only in the realm of human rights, but also in terms of corruption. According to Human Rights Watch (2002), traffickers in BiH are intimidating women seeking jobs in Western Europe into prostitution rings, in which they are traded and sold, while being forced to work off "debts." Governmental corruption comes into play because, according to the report, "local officials often fail to investigate and arrest traffickers, while blaming the victims for their reluctance to testify. Meanwhile, [some] international police officers patronize the clubs where trafficked women perform, sending a strong message to trafficking victims that they cannot trust the authorities to help them escape their 'owners'" (Human Rights Watch 2002). This example clearly demonstrates that the lacking rule of law allows corruption to become an all-encompassing phenomenon, trickling down from higher to lower levels, in this case from organized traffickers to the patrons of the respective clubs. The USGAO (1999: 2) report supports this claim, maintaining that "Bosnia's law enforcement and judicial systems are inadequate and institutionally incapable of prosecuting cases of corruption or administering justice." One major reason for this is that accountability and transparency were not only lacking in the previous system, but also the current decentralized system in which the state government, entities, cantons, and municipalities "obscure lines of responsibility and make accountability difficult and, at times, impossible" (Mertus 2005: 2). In other words, Dayton has partially *contributed* to the corruption problem while the OHR simultaneously attempts to combat it. At the same time, "Bosnian leaders from all ethnic groups may have little incentive to combat corruption, since curbing corruption may reduce their ability to maintain their control" (USGAO 1999: 3).

An additional example of low-level corruption by government officials can be seen by their ordering that school classrooms "be painted four times within one year (with the benefits from the work going to a local contractor), despite the fact that the schools had been rebuilt and repainted by international aid organizations" (Karatnycky/ Motyl 2000: 160-161). Additionally, officials paid these contractors significantly more than the going rate for the work. Another example of this is the truckers' lobby, which bribed officials to keep rail lines closed for much longer than was intended in the rebuilding of the nation's infrastructure, which was done in order to help their own interest of employment (NIT 1999-2000: 160). Many more examples of clientelism can be found, but it is already evident that with such high levels of corruption on the governance level, even policemen are unlikely to be working for the people, but rather for themselves or ethnic political parties that look out for their interests (USGAO 1999: 3). With these issues, a lack of trust in public institutions is perpetuated.

1.2 Economic Issues

"Legal and ethical standards proscribing public and private sector activity for government officials are weakly developed. Throughout the Balkan states, control of the government has usually entailed control of the economy, and traditionally, individuals have entered government at least in part to enrich themselves. [...] Top officials have strong, direct and often illicit ties to business" (Karatnycky/Motyl 2000: 160).

Corruption in the economy is difficult to separate from the other dimensions, but this section will focus primarily on the macro-level challenging from the lack of a truly independent "private" sphere. One prime example that represents the challenges of corruption in the economy is that of McDonald's. The company was initially interested in opening a restaurant in Sarajevo, but withdrew its plans when officials demanded bribes (Karatnycky/Motyl 2000: 160). In addition, officials are involved in clear criminal actions, such as smuggling various goods, including timber, gasoline, cigarettes (estimated to be $ 230 million annually) (Chandler 2003: 3), alcohol, and coffee (Karatnycky/Motyl 2000: 160).

In order to look at the economy as separate from other dimensions, corruption in relation to various national factors should first be considered. One of the major challenges for economic development is attracting both foreign and domestic investment. In light of the declining international aid, foreign investment is seen as one of the key factors to improving the Bosnian economy. With the international community being responsible for attracting investment, its failure is even more noteworthy. Corruption is seen as the main factor preventing significant long-term growth as well as project investment (Chandler 2003: 3).

A legitimately functioning economy is also essential for the sustainable operations of the government. The informal sector of the economy accounts for over 50 percent of all economic activity (CIA World Factbook 2006), which will be elaborated upon in the following section of this paper. Along these lines:

"Up to 80% of the people working in private firms had no official employment contracts. Neither these workers nor their employers pay taxes to the government, nor do they contribute to pension or health insurance funds, which partially accounted for the constant deficits in these funds" (Karatnycky/Motyl 2000: 162).

One of the underlying reasons for such a thriving shadow economy is the cost of privatization. Not only do honest private businesses typically lose money or make a very small profit if they pay all taxes and follow the current rules, but they are also often forced to lay off employees as a part of the privatization process. The informal economy is also directly related to unemployment figures. Due to the number of workers off the books, official numbers place unemployment at approximately 45.5 percent, while estimates including the shadow economy declare it is more likely that unemployment lies between 25 and 30 percent (CIA World Factbook 2006).[7]

1.3 Civil Society Concerns

One important factor to consider as a backdrop for civil society is the "nationalist party structures that took root during the war and Bosnian mindsets formed by years of autocratic and communist rule" (Chandler 2003: 6). These have influenced local perspectives to a great degree, but this section shows that corruption plays an even greater role in the current outlook of many Bosnians.

Considering the previously outlined corruption and ethnic clientelism facilitated by "top-down" structures, other levels of society remain susceptible to similar issues. The "bottom-up" examples in this section, though often seen as minor in comparison, can be even more destructive when considering the long-term effects on societal customs. For example, with the permeation of lower levels of society, corruption causes frustration, cynicism, and overall loss of faith in the government and system. This can result in a society in which "citizens view their own public officials with great distrust and local businessmen with perhaps even greater skepticism" (Mertus 2005: 2). At present, it is easy to confirm that a majority of Bosnians perceive their government as corrupt, as shown in the previously mentioned TI poll. As a result, it is "no wonder Bosnians are cynical about democracy" (Mertus 2005: 2), as they feel that the officials they elect cannot be trusted.

These viewpoints are critical for the future of the country, as they signify a loss of hope. When civil society loses any sense of optimism, this leads to deeper problems, such as voter fatigue and brain drain, which will be examined in the third part of this Working Paper. One example that illustrates this can be seen in education. In an article appropriately titled "Nothing can be done without corruption in Bosnia" a South African newspaper alleges the forgery of university diplomas as a result of a policy to assist with the recovery of lost documents during the war. Many students bribe professors in order to pass exams, or even to receive degrees quickly. The article states that corruption permeates all levels of education, even including

7 For more information, see the following section by Julika Bake.

primary schools. According to a survey of 800 university students, "90% of them believed there was a problem with corruption at their faculties" (Mail and Guardian 2006). Such examples signify a complete loss of faith in national institutions and behavior justified by a need to survive economically.

2. Steps Taken to Combat Corruption

David Chandler of Westminster University notes: "For many [...] there is an assumption that anti-corruption strategies fit closely with the aims of good governance and can be effective in increasing the accountability of state institutions and revitalizing networks of trust in civil society" (Chandler 2003: 2; Doig/Riley 2006). This quote summarizes the goals of an effective anti-corruption strategy. Though not exhaustive, the following section outlines various measures taken to combat corruption, concluding with a short evaluation of these varying strategies.

Much like many in Bosnia see European integration as a solution that transcends ethnicities and political groups, anti-corruption efforts should also be considered a unifying domestic goal. Former Prime Minister Adnan Terzic of the Muslim Party of Democratic Action, the first prime minister to serve a full four-year term since the war, has "listed growth and investment and fighting crime and corruption as his government's priorities" (BBC News 2006). This potentially shows a national interest in significantly reducing corruption, although it is more likely to be simple lip-service, considering the lack of concrete results thereafter.

The most noteworthy attempt to tackle the issue was the OHR's Comprehensive Anti-Corruption Strategy for Bosnia and Herzegovina from 2005, which seems to have been abandoned for no apparent reason. The strategy was based on four pillars: education and public awareness, the elimination of opportunities, transparency and reporting, and securing control and penalties (OHR 2005). One criticism of this strategy, however, is that it was simply a summary of existing international efforts, which have not been well coordinated (USGAO 1999: 4). This could be a reason for the lack of activity in this area by the OHR. Within the other international strategies, the European Commission remains committed to combating corruption. Currently, it is supporting a Corruption Perception Study and has created a Corruption Hotline, allowing for assessment and suggestions for fighting corruption by citizens. It also represents the first national database for compiling cases of corruption (European Commission 2008). The EC Customs Assistance Office effort to streamline customs was considered to be one of the most significant accomplishments in the fight against corruption (Sullivan 2006). This can be seen by the 2005 implementation of a single-rate value-added tax (VAT) at 17 percent, which is considered a great step in streamlining import regulations to eliminate opportunities for corrupt practices and to ensure steady revenue from imports (OHR 2005).

A second notable effort has been the UN International Police Task Force and its work training local police, which has since been taken over by European Union initiatives under EUPOL (USGAO 1999: 5). Before leaving office, High Representative Ashdown also mentioned police restructuring as one of the priorities that needs to continue (OHR 2005). As an individual effort, this is a small step, but such steps are vital to improving each dimension that facilitates corruption.

Many efforts have been made by international and local institutions to strengthen the rule of law in order to properly prosecute organized crime and corruption. These efforts have produced mixed results. The recently established State Court of BiH handles not only war crimes cases, but also organized crime.[8] According to Kevin Sullivan, this court is a positive step because it has the ability to prosecute criminals who were long thought to be above the law due to mafia-like structures and the lack of a proper prosecution system. While noting the limitations of a court that has been in existence for only a few years and was only hearing sixteen cases at the time of the interview, Sullivan emphasizes the positive long-term psychological effects the institution could provide (2006).

Since 2000, BiH has signed several international anti-corruption conventions.[9] The list is long and impressive at first glance, but the question remains as to how dedicated government officials are in enforcing these conventions, as well as whether BiH was simply coerced into these conventions by the OHR on the one hand and the international donor community on the other.

Paddy Ashdown established the Crime Strategy Group in order to help BiH fight organized crime and corruption with the goal of meeting the Copenhagen criteria for EU integration, which, according to a report by the office of the EU Special Representative, closed down in November

8 For information on current trials, visit the Court's homepage at http://www.sudbih.gov.ba/, last accessed: August 30, 2008.

9 These conventions include the UN Convention against Transnational Crime, New York, (Dec. 15, 2000, ratified on April 25, 2001), Sanction-Corrective Anti-Corruption Convention (ratified on April 25, 2001), Civil Law Convention against Corruption (ratified on April 25, 2001), Statement on Intent on Accession to the Council of Europe Assembly of States for Fight against Corruption – GRECO group (full membership on February 25, 2000), UN Convention against Corruption (signed on September 1, 2005).

2006 (European Union Special Representative in Bosnia and Herzegovina 2006).

Unfortunately, these and many other efforts have only had limited success, due in part to the lack of commitment from Bosnian officials. Although referring to the situation almost 10 years ago, the evaluation provided by the US-GAO remains relevant: "the Bosnian government's efforts have primarily been to create committees and commissions that have failed to become operational or measurably reduce crime and corruption" (1999: 4).

The role of the OHR in combating such an issue is rapidly declining. According to the homepage of the OHR, the goal has been set to close this ad hoc office by June 30, 2008. It can already be seen that many of the units, initiatives, and activities of the OHR have been scaled back, eliminated, or otherwise been transferred over to EU institutions. While many problem-solving strategies have made little progress, it remains to be seen if the country will be able to improve the situation now that much of the international community has turned its attention elsewhere.

3. Outlook

Throughout this section, it has been shown that corruption is an endemic problem in BiH. The issue has been analyzed within three sections (governance, the economy, and civil society), with the inclusion of several examples. Finally, the current steps being taken to combat corruption have been briefly outlined.

Corruption defies simple solutions. Some argue for further international controls without taking into account that this potentially undermines the legitimacy of domestic institutions. Others argue that centralization of the Bosnian government is the solution, although this approach has several hurdles. First of all, it would involve changing the DPA, which was successful in halting the armed conflict, but is proving damaging to the sovereignty of BiH, therefore reducing the ability for the Bosnian government to take control of such issues as corruption. Another restriction to centralizing the Bosnian government, it can be argued, is that the potential of nationalist abuse of a centralized structure puts the nation at risk of further conflict.

The existing efforts to combat corruption have seen mixed results for many reasons. Lack of coordination is one primary reason, which can be cited as an issue when looking at all development efforts in BiH. With the sheer amount of international organizations, government bodies, and outside interests present, Bosnia and Herzegovina has become the victim of the classic bureaucratic problem of coordinating each interest to move collectively towards several, often conflicting, goals. However, BiH additionally faces the problem of certain waves of interest by the international community. It continues to be difficult to obtain funding for projects that are not as pressing as the immediate humanitarian crises facing the nation directly after the war. While the European Union remains engaged, this could change if the EU faces accession fatigue. Another factor regarding this prospect is the shift of the EU with the gradual accession of Eastern European nations, most recently Bulgaria and Romania in 2007. These changes are causing a different dynamic in the EU, including a redefined institution from the original union. Within this framework, the problem of corruption is also one typical of other nations already members of the EU, while the complexities emerging from post-socialist transitions can be witnessed in many of the recently admitted EU nations.

Despite these limitations, the option that many in Bosnia remain committed to and hope will solve a great deal of the remaining problems is the prospect of European integration. The hope is that integration will bring about greater economic prosperity on the one hand and implement policy initiatives that the country may otherwise not be able to on the other. This perspective, however, is likely too optimistic. There are several countries within the European Union with corruption problems comparable to that of Bosnia and Herzegovina, so European integration is unlikely to provide the sweeping solution.

Combating corruption, a major aspect of economic development in any country, is particularly important in the case of BiH due to the impact economic development has on the entire peacebuilding process. Corruption is one element that greatly affects public perception of the economic state. In a nation with fresh scars still visible, such a perception alone can be enough to tip the balance of peacebuilding. Without a positive perception, stagnation or even further violence is possible. Socio-economic aspects gain a heightened importance in post-war societies, as they often represent the tangible aspects of a better life. Without improvement in these areas, the peacebuilding process can be stalled, ultimately decreasing democratic (and independent) control of the country and prolonging international engagement.

B) Making a Living in Bosnia-Herzegovina – Informal Labor and Policy Options *by Julika Bake*

1. Economic Development and Informal Activities

When discussing Bosnia and Herzegovina's (BiH) economic prospects, one quickly comes across the issue of the informal economy. It is always named as one of the major, if not the main obstacle to development and stability. The CIA World Factbook (2006) estimates that the informal sector potentially encompasses half of the country's real GDP of $ 22.89 billion in 2005.

Generally, the term "informal economy" refers to "all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements" (Flodman Becker 2004: 11). Although some speak of the "informal sector," it does not only cover a particular sector, e.g. subsistence farming. It is not confined to marginal activities, but also includes profitable enterprises. It can neither be regarded as completely separated from formal economic processes and structures, nor is it necessarily criminal – to a large extent, it consists of goods such as pharmaceuticals and labor services whose production and distribution is perfectly legal.

For the state, informal economic activities can have serious consequences as they lead to a reduced gross domestic product (GDP) and a decrease in revenues. For the worker,

"work-related risks are greater, such as less secure contracts, fewer benefits and poorer working conditions for wageworkers. (…) [The workers] suffer from inadequate labor legislation, labor protection and social security schemes and have limited access to wage workers organizations. In addition, their incomes are low and irregular and they have a very limited bargaining power to increase salaries" (Flodman Becker 2004: 21).

This section of the paper analyzes informal labor in BiH with the aim of identifying policy options. First, a short methodological approach will be outlined to show how a phenomenon like informal economy, that is by definition not subject to official statistics, can be assessed. This will be followed by an analysis of the Bosnian labor market with special regard to the status of formal and informal employment, the characteristics of the workforce and the developments in the labor market in general. It will become clear that informal relations still play an important role when it comes to labor. The final part addresses and substantiates appropriate macroeconomic and labor market policies. The weak formal economy, the annual loss of a considerable share of revenue and the local political weight of informal employers are three reasons why policy makers should make a comprehensive effort to reduce informal labor. The contribution's main argument is that this can only be achieved through a set of measures which go beyond mere macroeconomic policy and take into account the regional (power) political settings.

2. Informal Labor in Bosnia and Herzegovina

2.1. Data acquisition

It is difficult, though not impossible, to assess informal procedures and processes that are by definition beyond state control. Most countries rely on indirect measurement methods such as segmenting wage employees enumerated in labor force surveys in order to determine which ones belong to the informal sector. Comparisons then can be made with data on establishments or enterprises, e.g. with administrative records.

Another possibility is the direct measurement of informal activities through household surveys. In order to capture the whole range of informal labor, questions must cover many variables; to capture the work of children, the minimum age limit must be lowered when measuring the economically active population. Special probes have to be taken for unpaid work in small family enterprises, activities undertaken by women on their own account at or from home, undeclared activities, casual jobs, and informal activities performed as secondary jobs by farmers, government officials or employees of the private formal sector (Hussmans 2004: 9).

Usually, the Yearbook of Labor Statistics of the International Labor Organization (ILO) is the main source for empirical measures of informal employment, as its data is highly comparable and uses well-defined categories (Ihrig/Moe 2000: 334). Today, household and enterprise surveys are usually combined to serve as an efficient and comprehensive way of measuring informal labor. While direct measurements are unable to provide a basis for estimates on its growth or development, they do allow for an analysis of the enterprises and the workforce of the informal sector (Ihrig/Moe 2000: 17).

Regarding the case of BiH, statistical coverage of the economic situation is very poor. While the statistics system did not operate and data was lost during the war, separate statistics agencies were set up in the FBH and the RS in 1995 (World Bank 2005a: 3). Their collection and

processing methodologies were later unified by the State-level Agency for Statistics (BHAS) established in 1998. Today, there are still many technical and some institutional challenges to be overcome but the situation is slowly improving. The demand for statistical analysis is huge; for example, the last census was taken before the war. In 2006, BHAS conducted its first annual Labor Force Survey (BHAS 2007).

As of now, there are a few mixed household and enterprise surveys that institutions and organizations rely upon. They cover the short period from 2001 to 2004 and thus do not allow for the analysis of long-term developments. However, they do provide information on the extent and composition of economic activities at a certain time.

2.2. Formal and Informal Employment 2001-2004

The following section gives an overview of the labor market in BiH, including labor participation in relation to the total population, the proportion of formal and informal employment as well as characteristics of the labor force.[10]

Generally, BiH has a very low labor participation rate, i.e. a small proportion of the working-age population has or is seeking employment. At 53.7 percent in 2002, it was among the lowest in Europe.[11] For Bosnian women, the rate is considerably below the average at 38.4 percent, while the rate for men is at 69.4 percent. Interestingly, the World Bank (2005a: 109-110) observed that labor participation is very responsive to changes in employment offers: "An increase of close to 12% (…) [in] just one year shows that individuals are willing to participate [(…)] (i.e. more people register as unemployed and seeking a job) if and when job opportunities become available." This could also be a sign for the sense of self-reliability among the Bosnian people who do not trust state agencies to find employment unless there are very concrete signs of employment growth. Despite this growth in active persons, there is no change in the labor participation rate, as the total working-age population also has been increasing.

In 2002, less than 43 percent (46 percent in 2004) of the working age (15-64 years) population in BiH were employed. While employment was a little below average in the RS (39 percent), it was accordingly higher in the FBH (49 percent). Men in the RS were the only ones whose employment rate decreased (61 percent to 58 percent), while everyone else's increased.

In the same period, more than one third of all employees were working in the informal sector (World Bank 2005b: vi). Between 2001 and 2004, this share increased in the RS on a generally higher level from 41 to 49 percent, while in the FBH it averaged 33 percent and 36 percent. As the BHAS Labor Force Survey 2006 did not include informal labor, it is hard to judge whether Sullivan (2006) is right when stating that the informal economy has diminished since the beginning of that year. But given its small increase in the years before, one should at least be cautious to predict its decline.[12]

At the same time, unemployment[13] rose from about 16 (2001) to 21.4 percent (2002) in both the RS and the FBH. It is higher for women and alarmingly high for the youth – close to half of the 19-24 year olds are unemployed. It is also higher in the FBH in comparison to the RS and for older workers above the age of 55. Based on self-reported unemployment, however, the rate declined slightly from one third in 2001 to 30 percent (2004).[14] Even the estimated net job creation[15] of 50,000 jobs between 2002 and 2004 (World Bank 2005b: 110) did not suffice given the increase in working age population. Remarkably, the creation of employment did not occur at the expense of working hours. The percentage of employees working more than 40 hours per week has steadily increased from 88 (2001) to 92 percent (2003).

The vast majority (87 percent) of jobs was created in the

10 Unless quoted otherwise, all numbers are taken from the Living Standards Measurement Survey (LSMS) that is globally conducted by the World Bank every year (see World Bank 2005b, especially 75-95). The preliminary issue of the BHAS Labor Force Survey 2006 provides data for that year. However, the highly significant differences between the figures of the World Bank and the BHAS raise the question whether the data really is comparable; e.g. according to the BHAS, the employment rate in 2006 was 29,7 percent, while the World Bank employment rate for 2004 was 43,7 percent. Also the labor force participation differs by more than 10 percent (53,7 percent in 2004, World Bank – 43,1 percent in 2006, BHAS). The BHAS was contacted via email by the author for an explanation, but has not yet responded to the inquiry. For matters of inner consistency and comparability, this paper will therefore rely exclusively on the World Bank data from 2001 to 2004.

11 The Euro zone average in 2002 was 70.38 percent (OECD Economic Outlook 79, August 2006).

12 The predicted decline might occur regarding informal markets where the introduction of value-added tax is starting to show effects (Sullivan 2006). But it is hard to see where that would make a difference in informal labor.

13 A person is classified as unemployed if he/she is (a) in the working age population (15-64) but not employed *and* (b) seeking work in the last 4 weeks *and* (c) available for work (World Bank 2005b: 76).

14 The difference between official and self-reported unemployment is due to several reasons, e.g. the number of workers that have been laid-off and are thus de facto unemployed (Jahovic 1999: 94).

15 The term "net job creation" describes the number of jobs which were newly created, already deducted by the number of jobs which were cut during the reference period of time.

informal sector. Looking at the sizes of the respective companies, it shows that small and medium firms were the only ones with a net job creation. In fact, even though the number of jobs cut in large companies was only a fraction of the number of cut jobs in small and medium firms, it was not balanced by a sufficient number of newly created employment opportunities. The World Bank ascribes this difference in labor turnover (the rate of change of personnel) inter alia to a difference in ownership structure. While the state is still holding the majority ownership stakes in bigger companies, small and medium firms have generally been privatized and are thus forced to yield to the market (World Bank 2005a: 111).

Regarding the age criterion, one fifth of the informal workers are 25 years old or younger. On the one hand, the same share of the total population is less than 24 years old, so one could say that this is just adequate. On the other hand, the fact that only 6 percent of formal employees are that young illustrates the inaccessibility of the formal labor market for the youth.

As is the case with youth, poorly educated people are similarly affected by unemployment and informal employment. For those with no elementary education, the employment rate rose from 20 percent (2001) to 25 percent (2002). It increases constantly with educational attainment – little more than half of the people with a two-year college education and three fourths of those with a four-year university education are employed. Given the current low enrolment rates at successively higher levels of education, unemployment and informality are further aggravated (World Bank 2005b: 4).

Looking at the different sectors, the surveys show that informal employment is "heavily concentrated on the agricultural sector" (World Bank 2005b: vii). The percentage of those informal workers in agriculture actually increased from 42 percent in 2002 to 49 percent in 2004, followed by construction (19 percent), manufacturing, and trade (9 percent each). The ESI (2006: 90) argues that many of those who "first moved from farm work into industrial employment in the 1960s and 1970s are now forced to return to the villages and lifestyles they abandoned a generation ago." Many people would rather emigrate and many also do (ESI 2006: 90).[16]

Regarding the employment status in BiH, in 2001 the majority of informal workers were privately employed, while 25 percent conducted freelance work and about 20 percent were contributing family members, i.e. individuals employed in a family business (OECD 2001). Both of the latter increased until 2004, while the share of private firms decreased. According to the World Bank (2005b: 6),

"this reinforces the previous observation about the limited role for employment creation that small firms appear to have recently played, as does the fact that the share of construction and manufacturing in informal employment decreased by 15% and 8%, respectively, in the last three years (2001-2004)."

Instead, an increasing number of people support themselves through farm work. Even if these forms of subsistence farming might not harm the state in the same way major tax evasion by companies does, and even if most unemployed people can find jobs in the informal sector, Jasmin Redzepovic (2006: 152) warns against the conclusion that unemployment is less severe than the official statistics indicate: "Most of the grey economy is simply the survival strategies of those who have been forced out of regular employment." Given the chance, nearly all of them would prefer to have a working contract and to be protected by labor legislation than to work informally and in dependence on their employers.

In sum, an increasing number of workers, including a very high percentage of young, poorly educated individuals and women, are employed in the informal sector. Half of them are farm workers, either self-employed or working in a family business. Employment in the formal sector is only increasing very slowly. At the same time public administration and the large state-owned companies continue to be over-staffed. There is an enormous need for (new) formal employment opportunities.

3. Policy Options and a Closer Look at the Origin of Informality

When formulating policy, governments should recognize the importance and the potential of informal labor. The common objective is to formalize all informal activities so that the state benefits from them. The growth of the private sector should be encouraged and the needs and vulnerabilities of informal workers as well as employers' interests should be taken into account. This means that legislation has to be adjusted. Just as importantly, law implementation and enforcement have to be ensured in order for the state to gain and then preserve its credibility.

Policy should tackle different aspects of the informal labor phenomenon. Besides macroeconomic measures, there are specific options in labor market policy. Last but not least, the environment or culture of informality should be taken into consideration and relevant actions introduced.

16 See Simon Runkel's part of this Working Paper on the brain drain phenomenon.

3.1. Macroeconomic Policy – Invigorating the Economy

In general, the formal labor market in BiH would profit from economic growth. In 2002, the country's GDP was only at 76 percent of the 1989 level. Given the government's 50 percent share of GDP, BiH's biggest challenge is an increase of private investment in the country's economy as well as the attraction of foreign direct investment. According to Daalder and Froman (1999: 109), "Bosnia faces economic challenges that (…) go to the heart of creating strong economic institutions: the creation of a transparent regulatory regime, a reliable tax system, a judiciary with integrity."

The biggest recent attempt at strengthening the Bosnian economy was the introduction of a value added tax (VAT) in January 2006. Expectations regarding its effects were high, including "strengthening of domestic competition and the promotion of better governance" (World Bank 2005b: viii), among others.

While the VAT theoretically does not yield more revenue than a conventional sales tax, it is a single tax collected by a central agency, making corruption difficult. As a result, it has generated a considerably higher output already. According to Sullivan (2006), the VAT introduction eliminated a "huge area of tax evasion" and brought numerous companies into the regular economy.

Another aspect is the promotion of a business-friendly environment. According to Donais (2003: 371), corruption can be seen as a coping mechanism given long public administration processes like business registration, which used to take up to 90 days. Reducing the administrative burden has been the aim of the often-quoted "Bulldozer Initiative"[17] that the OHR started in 2002. Entrepreneurs were invited to make specific suggestions for single articles, which were then reviewed by legal experts. A set of 50 proposals was presented and legislation was passed on all of them (Sullivan 2006). The economic effects have not been measured, but all parties involved – politicians, entrepreneurs, media, and analysts – welcomed the initiative and the anticipated outcomes.[18]

Still, economic growth and the facilitation of administrative actions do not automatically lead to a reduction of informal labor. There is also a need for improvements in labor legislation (Flodman Becker 2004: 17).

3.2. Stimulating the Formal Labor Market[19]

In order to improve the working conditions of the informally employed and in order to motivate employers to (slowly) switch to hiring people formally, legislation has to be adjusted to the realities of labor in BiH. As illustrated above, the Bosnian labor market and especially its formal component is characterized by a lack of labor turnover, a compressed wage structure, comparatively high wages, very low labor participation, and processes such as the wage determination mechanisms that function primarily according to pre-transition behavior (World Bank 2005a: 101). Just like any other sphere of society, the labor market suffers from the effects of a post-war as well as post-socialism reality.

The Bosnian labor market has a "noticeable duality between the functioning and performing of its formal and informal elements" (World Bank 2005a: 101). On the one hand, there is a relatively rigid and poorly functioning formal labor market that is dominated by large-scale (state-owned) companies. On the other hand, there is a highly flexible informal market based on small and medium-sized enterprises (SME). Also, dimensions such as gender, age and education are dually divided between the two types of markets. Women, youth and people with vocational training or lower education are more likely to be employed in the informal market, while men, middle-aged people and those who have at least a secondary school diploma have jobs in the formal market.

Following its analysis of the Bosnian labor market, the World Bank outlined several policy recommendations to invigorate formal labor. Besides calling for the improvement of the statistical analysis of labor in BiH, it proposed the establishment of a state-level economic and social council. The council could serve as a forum to discuss the medium-term labor market and collective bargaining reforms (2005b: xvi).

The World Bank also observed that the non-enforcement of rigid regulations leads to informality. Not knowing whether they actually will have to face prosecution and knowing the crucial disadvantages of complying with official procedures, employers are in a difficult position. Besides creating uncertainty among employers and new investors, the non-enforcement of regulations leaves workers without the protection they are entitled to. To

17 For further information of the Bulldozer Initiative, see: http://www.ohr.int/ohr-dept/econ/bulldozer-initiative/ , last accessed: August 30, 2008.

18 A valuable effect of the Bulldozer Initiative was in the sense of ownership it conveyed to the people in Bosnia, as they were asked to take the lead.

19 This section relies exclusively on World Bank data, as no other data could be obtained. In view of the ideological orientation of the World Bank, the lack of alternative sources is especially critical when it comes to economic analyses. This lack of other sources as well as the ideological factor should be kept in mind when reading this section.

improve this situation the World Bank suggested the relaxation of labor regulations in several aspects, while the remaining regulations should be enforced more strongly. First, they pointed to the relatively high wage increases for formal jobs in BiH that are not backed up by an accordingly higher productivity. While payroll taxes have recently been declining, net wages increased annually by 9 percent in the FBH and 11 percent in the RS in 2003 and 2004. Reasons might be the strong bargaining position of workers with "protected jobs"[20] and the functioning of the collective bargaining process (World Bank 2005a: 105-106). High labor costs, however, have a negative impact on the competitiveness of Bosnian companies. Therefore the position of employers in the collective bargaining process should be strengthened.

Second, the World Bank proposed a gradual reduction of the minimum wage. Compared to other transition economies, the level of the minimum wage (49 percent of the average wage in the FBH, 26 percent in the RS) is relatively high, which might keep employers from hiring. Instead, people are asked to work informally for a lower wage and without any labor protection. Especially the youth is affected by this – as young people are often hired for low-paid jobs, minimum wage policies are highly relevant for their employment situation (World Bank 2005b: 128). Given the extremely high youth unemployment rate of 56 percent in 2004, World Bank analysts suggested that youth should not be covered by collective bargaining agreements, or instead that a separate youth minimum wage should be introduced.

Third, the mechanisms of collective bargaining and wage determination should be reviewed. At the moment, the wages for all sectors (public and private) are negotiated together, which does not serve the interests of all parties as public and private employers are subject to different conditions (different restraints and necessities). Separate consultations for the public administration should be held. In the bargaining process, the private sector should be empowered and the agreement coverage should be limited to those present at the negotiations in order to give the affected firms a chance to influence the outcome.

In view of the generally low female labor participation, maternity leave duration (one year) should perhaps be reduced as it may act as a barrier to female employment. In addition, maternity benefits in the FBH are officially paid through the social insurance, yet are de facto left to individual employers (World Bank 2005b: xiv). This could definitely be a disincentive for companies to hire women, which is essential to increase the overall labor participation. Therefore, the entities should ensure the payment of maternity benefits through the social security system.

As the formal labor market is marked by a lack of mobility, certain measures would help to raise workers' flexibility. For one, legislation should be reviewed on the matter of temporary lay-offs. As there is no possibility to officially suspend someone from work for a period of time, the individuals in question officially remain employed and are not able to seek another job with social security benefits, because their "workbook"[21] has to remain with their official employer. An additional option would be to develop an alternative to workbooks in order to allow workers to obtain a second job with social security benefits.

The lack of flexibility and oversized workforces of the large-scale state-owned companies are not easy to tackle. One can propose the reduction of staff and the sale of company shares, but the actual implementation requires a change in thinking. As mentioned above, the World Bank observed that both managers and employees still behave and act according to a pre-transition logic – while managers do not take market-oriented decisions (but hire and fire to secure their own position in the company), employees are not ready to enforce their claims on firms: "Firms rarely take difficult decisions related to rightsizing the labor force and resisting automatic wage increases, even when their survival is at stake" (World Bank 2005a: vii). The necessary change in thinking, actually a change in management culture, could perhaps be triggered by different incentives, but it will definitely need years to take place.

Given the remote employment opportunities of the poorly educated as well as their comparatively low wages, the government should further introduce policies to promote secondary and higher education. Only 73 percent of 15 to 18 year olds are enrolled in secondary schools, compared to an average in most European countries of 85-95 percent (World Bank 2005b: 7). Compulsory school attendance should be extended while the quality of education should be improved.

To conclude, there is a need for additional legislation concerning issues such as maternity duration and benefits and minimum wage. Furthermore, particular regulations such as the collective bargaining process are too rigid and need to be reviewed.

20 The World Bank report also highlighted this term, but did not specify what was meant by "protected". It did not indicate either what could be the reason for the workers' strong bargaining position. One reason may lie in the legacy of "social ownership", giving workers a strong feeling of identification and pride over their workplace.

21 A workbook serves the same purpose as a (wage) tax card.

3.3. The Power of Informal Employers

In addition to macroeconomic policy in general and labor policy in particular, one should take into account that informal labor as a phenomenon might – in one way or another – be embedded in the (current) Bosnian culture. Therefore, it is important to identify the links between informal labor on the one hand and history as well as the daily reality of people on the other.

Some authors argue that BiH has a long tradition of a clandestine political economy (Festic/ Rausche 2004: 28; Yannis 2003: 183). For one, it is still coping with the socialist legacy of closely interwoven relations between the political, the social and the economic sphere. Secondly, the war from 1992 to 1995 allowed war entrepreneurs to combine political power and (local) social influence with economic gain even more effectively than before. Entrepreneurs with political influence, with contacts to the pre-war administrative elite and the paramilitary groups did not only seize the moment of war to gain control over former state production sites to secure their future (political) power; they also cooperated for profit and gained millions of Euros on the black market regardless of their different ethnicities (Ehrke 2002: 14). Today, there continues to be a "lack of institutional separation between politics and economics within BiH, and this situation in turn reflects the success of the country's ruling elites in resisting international efforts to reduce their direct influence over the economy" (Donais 2003: 365). The manifold economic and political links therefore have to be taken into account when designing arrangements to secure the rule of law, but also when formulating economic policy.

According to Ehrke (2002: 22), the informal economy as a whole has been ethnically separated and controlled by the pre-war and wartime local elites. The ethnic separation primarily serves as a mechanism to preserve some leeway for illegal economic activities against the legal-bureaucratic state. These elites do not have an interest in the improvement of the formal market because they fear losing profits as well as political power. Even though half of the informal workers are self-supporting farm workers, more than 18 percent of the working population still depend on these elites to make a living. In a situation like this, "voting becomes an act of loyalty towards those individuals and groups who your own economic survival depends on" (Ehrke 2002: 26). Ehrke further points to the resulting contradiction between the efforts of the international community to promote democracy and its powerlessness given the "quasi feudal economic interdependence" (2002: 26) which prevents the development of democratic citizenship. From his point of view, the further development of a formal economy becomes a prerequisite not only for economic stability, but also for BiH's political future.

Therefore, one of the ways to reduce informal labor would be to weaken the ties between the (local) political and the economic sphere, as well as to deprive 'informal employers' of other illegally obtained profits. These efforts can be manifold. Donais (2003: 375-376) suggests

"measures aimed at severing the direct links between ruling parties and lucrative state-owned enterprises, […] measures aimed at shutting down conflict-induced trans-border trade and smuggling networks, and at strategies that are more effective in combating organized crime and corruption."

In single big cases such as the HDZ's[22] attempt in 2001 to establish a third entity by controlling the political economy (Festic/Rausche 2004: 30-32) or Radovan Karadzic's support network in the clandestine political economy (Festic/Rausche 2004: 28-30), the BiH authorities made an effort to weaken the actors' underground political and economic resources. Law-enforcement and anti-corruption capacities were built up. Furthermore, since 2002, the High Representative has made extensive use of his powers to remove uncooperative local officials and to impose an impressive range of legislative reforms in order to reduce corruption. Section II of the Criminal Division of the Court of Bosnia Herzegovina deals exclusively with organized crime, economic crime and corruption (Court of Bosnia Herzegovina 2006).

Creating formal employment opportunities will remain the essential challenge in the next decade. Moreover, it would be wise to weaken the local elites' weight in the economy in general and particularly in the informal labor market, as described above, in order to successfully reduce informal labor.

4. Outlook

The aim of this section was to identify policy options for dealing with informal labor in BiH. Informal labor reduces state revenue, leaves workers in insecure, low-paid positions, and threatens BiH's economic development. It thus jeopardizes the country's political stability and the success of the peacebuilding process more generally. It has been shown that the Bosnian labor market is marked by very low, but increasing labor participation. Due to a growing working age population, official unemployment increased despite the creation of (a few) formal job opportunities. The non-enforcement of rigid regulations regarding e.g. a

22 HDZ: Hrvatska Demokratska Zajednica, a Croat nationalist party that is active in Croatia and Bosnia and Herzegovina.

high minimum wage and amendable collective bargaining process leads to an increase in informality. Legislation adjustments in specific labor policies are therefore necessary. Due to the lack of formal employment opportunities, however, half of the informally employed work in the agricultural sector which is not affected by such policies. The introduction of a legislative framework promoting private investments and the growth of the private sector should thus be an additional objective of policy makers, as the resulting economic growth would entail additional formal employment opportunities.

The issue of the pre-war and wartime elites in the role of informal employers illustrates the continuously close links between the economic and the political sphere in BiH and the continuing significance of ethnicity in Bosnian society. It is crucial that policy makers in Bosnia take note of these links and decide to take a firm stand against informal labor in order to make economic prosperity and political stability possible.

The very first step, however, should be to aim at a better overview over the current status and structure of informal labor. Especially current measurement techniques need refinement. As United Nations Development Program (UNDP) economist Clement Jackson puts it: "Non-formal markets are defined by flux and shifting patterns of exchange, making observations, generalizations, and quantification difficult. Economic theory has little in the way of methodologies to meet the demands of this flux" (quoted in Nordstrom 2004: 231). One does not have to agree entirely with Carolyn Nordstrom's criticism of the "couch potato economists" who are allegedly just too lazy to do the necessary field work to find the idea of an anthropological approach to informal labor appealing. Speaking of what she calls "shadow economies," Nordstrom (2004: 15) remarks:

"Ethnography is an excellent way to study the invisibilities of power – invisibility that is in part constructed by convincing people not to study the shadows, convincing them that the place-less is impossible to situate in study, that it is 'out of site.'"

One does not have to rely exclusively on ethnographic methods to value their contribution to a comprehensive analysis of informal economic relations. They would allow one to study the "culture of informality," observing the groups and individuals involved (entrepreneurs, profiteers, supporters, helpers, and employees) and their interaction as well as the specific codes of conduct and taboos. Who has reasons to engage in informal economic activity and what are the reasons? To what extent do actors differentiate between legal and illegal action, which explicit and implicit rules apply to their interaction? Most importantly, one should keep in mind that the line between formal and informal, legal and illegal, licit and illicit is not naturally given but socially constructed. Informal activities should not be criminalized per se. Instead, one should also look at it in the way that those who engage in it do – regarding it as a way to make a living.

C) Brain Drain in Bosnia-Herzegovina - Boon or Bane? *by Simon Runkel*

Bosnia and Herzegovina faces many different challenges in the continued peacebuilding process. One of them is the ongoing exodus of educated young people. Having finished their studies, many young people typically try to leave the country as soon as possible. This process is known as brain drain. While the potential societal contribution of this well-educated part of the population cannot be measured, it is safe to say that this presents a significant loss for the country. Yet, given the continuously weak economy and the lack of job perspectives, their wish to emigrate is understandable.

Former High Representative Paddy Ashdown said: "This hemorrhage of the young and talented poses perhaps the greatest long-term threat to this country" (quoted in Fischer 2004: 3). Using the term "hemorrhage," Ashdown frames the migration of the young people as an entirely negative development. This section of the Working Paper aims to supplement this point of view by also identifying positive effects of the brain drain phenomenon. Especially in regard to the geographical location of BiH at the gates of the European Union, it will be interesting to take a look at these migration movements. In reality this could indicate "brain globalization" and the strengthening of transnational ties to diasporas, and thus lead to positive synergy effects in BiH itself. These contacts abroad could improve the access to knowledge and potentially contribute to the country's economic development. Also, these networks, which are also rooted in mostly well-developed countries *and* the developing country, could be seen as a chance for sustainable peace, especially regarding the prospects of EU accession. This section seeks to evaluate these theses in a way that breaks ranks with traditional explanations.

The first part illuminates the history and the meaning of the term brain drain. This is followed by an analysis of the possible effects as well as the negative characteristics of the phenomenon. Here, the focus lies on developing countries, a category under which many post-war countries[23] can be subsumed. The third part outlines the challenges and perspectives for Bosnia and Herzegovina in the educational and economic area. The section concludes on a counter-intuitive note, emphasizing the potential benefits of the phenomenon.

At the outset, it has to be stressed that research on the topic is hardly comprehensive. Brain drain as well as the characteristic effects of returnees in the European context are understudied. One of the few studies in this field was conducted by Hunger (2003), who researched the characteristics of returnees based on the case of Indian software companies. Unfortunately, the literature on migration in Bosnia and Herzegovina is meager. Statistical data is either unavailable or not very reliable, as most of the sources stem from NGOs whose strategic interests have to be taken into account. Thus, in the absence of a more comprehensive research base, this section of the paper represents a preliminary examination of the field.

1. Definition: "Brain Drain"[24]

The term "brain drain" was introduced for the first time in a British study describing the migration of highly qualified employees from Great Britain to the United States at the end of the Second World War. The intention of the study was to call attention to the flaccidities of the British science system. During the 1960s this topic was extended to the migration of highly-skilled people from developing countries to industrialized countries. Hunger used dependence theory and modernization theory to explain this phenomenon.

Dependence theory sees brain drain as a symbol of the exploitation of developing countries by the rich and industrialized countries as the latter states actively recruit employees abroad without paying for their training costs. The theory focuses on the underdevelopment of the poor countries, and recommends a self-reliance strategy. In addition, reparations from the industrialized countries and, in the 1970s, a brain drain tax were discussed.

Modernization theory describes brain drain in more ambivalent terms. The focus is on the migration of elites from developing countries in consideration of a free and global labor market. Accordingly, brain drain has to be assessed against the backdrop of an international factor balance and a global welfare gain. The cause for brain drain is seen in the generally worse condition of the economy and labor market in developing countries (Holzmann/Münz 2003: 19). As a strategy against the negative effects, a general enhancement of the circumstances in the developing countries was recommended to optimize the attractiveness for those who intend to emigrate.

To explain migration, mostly push-pull models are used. In the process, push-factors are the repelling strengths, while pull-factors represent the attractiveness of the migration destination (Bähr 2004: 261-272).

23 Developing countries and post-war countries often have similar features, albeit with a different causation, including a low degree of industrialization (in post-war countries, as a result of armed hostilities), a low standard of living, and a low income.

24 The following section draws upon Hunger (2003: 10-12) unless otherwise indicated.

It is important to note that that brain drain has different characteristics and intensities: it therefore has to be examined in context-sensitive ways. In general, it is clear that brain drain has economic effects. Lowell (2003) formulated different types of so-called "brain mobility":

"High skilled mobility: movement of highly trained persons, typically the college educated, but also secondary educated;
Brain drain: occurs with significant losses of the highly skilled and few offsetting economic feedbacks;
Optimal brain drain: possible emigration can stimulate students in sending countries to pursue higher education;
[...]
Brain circulation: a significant rate of return migration brings valuable skills and connections;
[...]
Brain globalization: some level of skilled mobility is needed to participate in the global economy".

The following section will differentiate between the potential positive and negative effects in more detail.

2. Potential Effects of Brain Drain

In the 1970s, the French researcher Ladame was the first to argue that brain drain could turn into "brain gain" if the migrated elites later return to their home country (Hunger 2003: 14) and proposed the term "circulation des élites," which later entered the literature as "brain circulation," to capture the potentially cyclical nature of the phenomenon (Hunger 2003: 14; Holzmann/Münch 2004: 20). Sriskandarajah (2005) suggests, "the very notion of 'brain drain' may be outdated and simplistic, wrongly implying that the impacts of the movement of highly skilled people are always and everywhere a bad thing." In line with this argument, this paper argues that the negative consequences of brain drain may be balanced by a potentially positive aftermath. First of all, it is essential to explore the different possible effects of brain drain until it is connoted a priori in a purely negative way.

In the first instance the country of origin certainly suffers under the loss of human resources, especially when it comes to the migration of its motivated and innovative youth (Holzmann/Münz 2004: 20). Those emigrants from countries where only a few people receive a tertiary education are not only better educated but also more highly skilled (Newland 2003). The loss for the developing countries expresses itself most notably through the loss of training costs, which mostly are highly subsidized by the state (Newland 2003; La Cava/Lytle/Kolev/Clert 2004: 58; Holzmann/Münz 2004: 20). In addition, the fiscal costs have to be taken into account as the migration of the potential well-to-do stratum means a significant loss of potential tax revenue (Newland 2003; Holzmann/Münz 2004: 20). In countries with a weak human resource base, it is possible that the educational system is not able to compensate the emigrated manpower. For example the migration of physicians is a considerable risk for the health care system of developing countries (Holzmann/Münz 2004: 8). Otherwise the alternative to emigrate can be regarded as an incentive for young people to attain better education, and many of them eventually do (Lowell 2003; Holzmann/Münz 2003: 8; Sriskandarajah 2005). It is important to note, however, that many of the emigrants had been unemployed in their home country anyway[25] (Sriskandarajah 2005).

Many emigrants come back like Ladame assumed, often with greater skills (Sriskandarajah 2005; Ostwald 2006). The highly skilled typically return to their home country to start a business and to use local comparative advantages (Hunger 2003: 15). An advanced training abroad and increased language skills significantly enhance the possibilities to get a job in the home country (Ahmetasevic/Poucher Harbin 2002). This can be seen as a transfer of skills, although Holzmann and Münz (2004: 20) rightly point out that this issue has yet to be researched more thoroughly.

Another aspect – and presumably the most quoted – are remittances from emigrants (Newland 2003; Holzmann/Münz 2004: 20). All remittances combined are estimated as exceeding $ 100 billion per year, 60 percent of which flow into developing countries (Newland 2003; Holzmann/Münz 2004: 20).[26] But remittances can also be outright problematic because they tend to "increase inequality, encourage consumption of imports, and create dependency" (Newland 2003).

Nevertheless, remittances certainly have a positive effect on the household of the beneficiary because they increase the standards of living (Newland 2003). As a matter of consequence we can understand remittances as the embeddedness in a social welfare system based on personal networks, which can help to avert more emigration, vitalize local economies and build "the kinds of institutional mechanisms and services needed for sustainable post-conflict rebuilding" (Weiss Fagen/Bump 2006: 8).

25 The literature speaks of "brain waste" in this context (Holzmann/Münz 2004).

26 "Feedback from expatriates includes today more than $ 32 billion in remittances sent to Latin America (...), a figure often larger than US aid or foreign direct investment" (Lowell 2003). In Kosovo, for example, private remittances from Kosovo-Albanians living abroad constitute the primary source of income, amounting to 43 percent of the GDP (La Cava/Lytle/Kolev/Clert 2004). Referring to UN statistical data, Ostwald (2006) estimates that remittances added up to 30 billion Euros in 2005 in total.

The organization of so-called diaspora networks has to be seen as a chance for the developing country (Hunger 2003: 14-15; Sriskandarajah 2005). Hunger (2003: 14-15) cites science networks in this connection, which can ignite positive effects for the developing countries due to possible technology and knowledge transfers. Furthermore, business networks are instrumental in advancing investments and inviting manpower back into the home country (Lowell 2003; Hunger 2003: 15). Above all, Cochrane (2007) shows that Diaspora communities have the potential to interact in peacebuilding processes in their homelands in a positive way.

In addition, aspects like tourism in the home country should also be taken into account (Newland 2003); it facilitates exchange and can thus give important impulses for the development of the whole country (La Cava/Lytle/Kolev/Clert 2004: 57). Likewise, fundraising for political candidates and nostalgia for foods and products of the country of origin should not be underestimated (Newland 2003). Given that "[t]ransnational networks are today the most important developmental resource associated with international migration," states' efforts at strengthening the ties with the diaspora are a very promising policy (Newland 2003).

Yet the resulting domestic challenges must be taken into account as external brain drain is often accompanied by internal brain drain, especially in rural spaces (Holzmann/Münz 2004: 19). It should also be mentioned that small states close to large labor importing regions are most likely to suffer from brain drain (Holzmann/Münz 2004: 21). Given its geographical proximity to the EU, this includes Bosnia and Herzegovina, the enormous obstacles to Bosnians' freedom to travel into the EU notwithstanding.

3. Challenges and Perspectives for Bosnia and Herzegovina

According to a survey in the context of the "Human Development Report BiH 2000 Youth," 62 percent of the interviewed youths vowed to leave the country if they had the chance (UNDP 2000: 35). A follow-up study in 2003 established that 24 percent wanted to leave BiH forever. The majority of the young respondents sought to leave the country temporarily for either work (40 percent) or study (13 percent), while 21 percent did not want to leave. Of those who wanted to leave either temporarily or permanently (77 percent), 18 percent had taken concrete steps to do so. Other findings show that more men than women aspire to leave the country, with women typically seeking to study abroad while men are primarily looking for work (La Cava/Lytle/Kolev/Clert 2004: 59).

The UNDP study of 2000 revealed that nearly half of the Bosnian students abroad had "never thought of studying abroad," but left due to the war: "The surveyed students represent primarily the upper middle-class; more than half of their mothers (55.4 percent) and two-thirds of their fathers (66.3 percent) have university degrees." At the time of the survey, 15.1 percent of students did not want to return home at all, 10.5 percent said that they will certainly return, while the rest of the respondents were not ready to make a decision. Asked about their "biggest hope when you think of return" almost half of the respondents (47.8 percent) replied that that would be "my participation in the reconstruction of the country by working in some foreign firm." Another 41.2 percent hoped for a job at one of the universities in the country with an additional 22.8 percent wishing to start their own business (La Cava/Lytle/Kolev/Clert 2004: 57). The number of those who actually left the country is estimated at 92,000 people or more for the period from January 1996 to March 2001 while tens of thousands were waiting for a visa (Ahmetasevic/Poucher Harbin 2002; Fischer 2004: 3). Other sources say that since the signing of the Dayton Peace Agreement in 1995 until 2006 around 110,000 mostly young people emigrated from Bosnia and Herzegovina (Ibreljic/Kulenovic/Kadusic/Smajic 2006). The most attracting countries for asylum seekers are France, Sweden, Germany, Switzerland and Austria, the main reasons for emigration are job opportunities and studying[27] (Ibreljic/Kulenovic/Kadusic/Smajic 2006).

Young people in BiH long for a better future, in particular an efficient infrastructure in their local community, and possibilities to get an apprenticeship and job (Fischer 2006: 257). But many of them are unemployed, and vocational training opportunities are scarce (Ahmetasevic/Poucher Harbin 2002; Fischer 2006: 268). The prospects are especially dim for girls, most notably in rural areas, because they have little chance of attending a secondary school (Fischer 2006: 257). Even if they do, chances are that they have to attend an over-crowded high school that is lacking up-to-date teaching material and, even more importantly, teachers (Fischer 2006: 257, 260).

The unemployment rate in FBH is at more than 40 percent and in the RS circa 50 percent, but the "unofficial" unemployment rate lies between 56 percent and 75 percent (Fischer 2004: 3). A third of the unemployed are young

27 According to the Atlas of Student Mobility of the Institute of International Education 9,572 citizens of Bosnia and Herzegovina were tertiary students abroad in 2003. Host countries were Germany (2,801 students in 2004), Croatia (2,273 students in 2003), Austria (1,732 students in 2004), the USA (433 students in 2004) and Denmark (432 students in 2003) (IIE, http://www.atlas.iienetwork.org/?p=48069, accessed: April 1, 2008).

people up to the age of 27. The waiting time for a job averages 10 years, but one can assume that many live on unreported income in this time period (UNDP 2000: 30). Furthermore, young and unemployed people run the risk of developing destructive potential, for example by becoming nationalistic or criminal (Fischer 2004: 3). Many juveniles admit to supplementing their income on the black market.[28]

The formal sector of the Bosnian economy is very weak and offers especially young people only few jobs (Fischer 2004: 3). Most of the job opportunities are offered in the informal sector,[29] 44 percent of the young people work outside of their primary vocational field (UNDP 2000: 31).

Commenting on the overall situation of young people in BiH, a spokesperson for the Youth Information Agency in Bosnia and Herzegovina (OIA) said: "The easiest thing is to go in the front of some embassy and ask for a visa that will take you somewhere else!" (quoted in Ahmetasevic/Poucher Harbin 2002).

And yet, BiH has also made progress in recent years. With an annual economic growth of 5 percent which is around the strongest in southeast Europe, the country is on the right path (Sullivan 2006). It is important to note – particularly for the youth – that the population identifies itself with the country, a point succinctly put by Sullivan (2006):

"The point at which, as in other transition or developing economies where one or two sectors begin to excel, is the point at which the population as a whole begins to regard the country in a different light and begins to see Bosnia and Herzegovina as a going concern. Not only as a going concern, but as our going concern."

There are some youth work programs and NGOs in this field which want to improve the circumstances for young people. For example, the project "Young People Build the Future" in Tuzla offers help for self-help through the provision of training opportunities in the fields of language and IT, agriculture and woodwork (Fischer 2006: 263). The aforementioned OIA publishes a weekly newsletter, informing juveniles about job vacancies (La Cava/Lytle/Kolev/Clert 2004: 60), devises skeleton plans to reduce brain drain and provides policy advice about how to implement these schemes. The organization backed their advocacy work by threatening street demonstrations (Ahmetasevic/Poucher Harbin 2002). The "Piloting Solutions for Alleviating Brain Drain in Southeast Europe" is another notable initiative. Sponsored by UNESCO and Hewlett-Packard, it supports research projects as well as the improvement of the websites and databases at universities (Trader 2005). In the context of the project, the universities of Sarajevo and East Sarajevo introduced new e-learning programs in their curricula (Trader 2005). The NGO "Community of Bosnia" strives to establish connections between high-skilled young Bosnians and Herzegovinians living in diaspora and their homeland through procuring internships for them in BiH. Their efforts can be described as supporting skills exchange.

Given the lack of more comprehensive studies, it is impossible to assess the impact of this mosaic of initiatives. However, there is encouraging anecdotal evidence of success in private enterprises founded by returnees. Even modest savings, accumulated while abroad, often suffice as start-up capital for a company in BiH. Nevertheless numbers of returnees are still not available or admixed with numbers of returnees who left during the war.

Beyond that, transnational ties to the diaspora can be seen as chances for Bosnia and Herzegovina. Spear quotes a study of the Bosnian diaspora in Great Britain from 1999:

"Despite... various obstacles to return, Bosnian refugees have increasingly sought links and contact with their country of origin. Both as individuals and as members of community organisations, there have been few yet growing attempts to get involved in ongoing developments within Bosnia, i.e. sending financial remittances, organizing cultural and social events, and regular visits to see friends and family" (Al-Ali/Black/Koser 1999 quoted in Spear 2006: 9).

The low-budget airlines FlyNordic and Norwegian Air Shuttle will fly from Stockholm and Oslo to Sarajevo in June 2008. In the absence of tourism, this can only be caused by the sizeable Bosnian diaspora in Scandinavia (Sullivan 2006). Other main connections to Sarajevo are Cologne, Munich, Frankfurt, Zurich, London, Vienna, Milan and Budapest. The number of persons in Germany with Bosnian and Herzegovinian citizenship are around 157,120 (except children under the age of 16)[30]. Just as important, increasing media coverage has been generated "which has Bosnia and Herzegovina without war in the same sentence" (Sullivan 2006). All this is vital for foreign

28 See Julika Bake's section of this paper on the informal labor.

29 People for example earn money by selling goods on the street, baby-sitting, language lessons (UNDP 2000: 29). See Julika Bake's section of this paper on informal labor.

30 81,142 men, 75,978 women and 21,134 children under the age of 16. The appointed date is June 30, 2007. The information stems from the Embassy of Bosnia and Herzegovina in Germany, transmitted by e-mail.

investors and for the prospects of reinvigorating the once flourishing tourism industry (Sullivan 2006); but it is equally important for returnees who are thinking about starting up in BiH. Beyond that Shain and Barth (2003: 450 quoted in Cochrane 2007: 23) emphasized that diasporas "are increasingly able to promote transnational ties, to act as bridges or mediators between their home and host societies, and to transmit the values of pluralism and democracy." Remittances have a big impact on local economies of BiH, thus on the economy of BiH in general. The country received $ 1.9 billion remittances in 2006 (The World Bank 2007). The calculated share of the GDP of BiH is 22.5 percent, only Tonga, Moldova, Lesotho and Haiti have an even higher share (The World Bank 2005c: 90). These remittances certainly help to accomplish peacebuilding goals.

4. Outlook

Brain drain has predominantly been seen as a negative trend; seen through a short-term lens, this is a fair assessment. A post-conflict economy like BiH suffers considerably when losing the motivation and innovation of young people whose training costs have been high. In the author's opinion, however, the long-term advantages are equally striking. Brain drain has to be regarded as an advanced training opportunity, for which people have to leave the country temporarily. Facing unemployment and intense competition on the labor market in BiH, young people are bound to become disillusioned and may try to make a living in illegal ways. Emigration offers the advantage of getting a winning margin concerning their skills and motivation. This can be transferred back to BiH indirectly, through networks to friends in BiH or directly in returning and starting up a business. Those who stay in BiH are faced with lower competition and a more balanced labor market.

What kind of arrangements on the part of the politicians have to be made to give young people a perspective? The current policy is marred by inconsistency. It is important not to thwart the young, talented people on their way out of BiH. Also, reforms in the field of education are urgently needed and the quality must be raised to European standards. It is necessary to develop programs which help young people to study and work abroad for a period of about five years. After this episode they should be given access to subsidies that enable them to start a business, like financial funds or a place in a technology center. It is necessary to enable Bosnian graduates to gather experience abroad, but also to offer them incentives to return after a while and to help their home country. Various microcredit projects are examples of how business development policy can look like. But there is still little evidence that remittances from the diaspora are channeled through official micro-credit projects. In this regard, universities should take more responsibility in supporting technology transfer and offering entrepreneurship training. In view of the limited capacities of universities in BiH, this calls for a collaborative effort and a partnership between Bosnian institutions of higher learning and their counterparts in other parts of Europe, especially Germany and Scandinavia. In addition, it is essential to work towards the reduction of the urban-rural gap in order to increase the prospects of a decent education and a job in peripheral spaces.

Young people are Bosnia's most important resource. On this account the international community, and especially the EU, has to exert more pressure on BiH regarding reforms in the field of education, including accession to the Bologna process, and on economic development. Especially in regard to a potential accession to the European Union, reforms in the field of education are imperative.

If these reforms succeed and if incentive structures are created for young emigrants to return, the positive long-term effects of remittances, transnational networks and the likelihood of returnees starting a business in BiH may outweigh the short-term loss. When "brains" return back, they are a huge gain for the country, because they bring skills and are likely to promote democracy and peace.

Conclusion

Economic development is crucial for BiH for several reasons. First of all, the economy has an enormous impact on people's lives – being able to make a living and to support themselves, people will be much more satisfied with their general living situation and thus less susceptible to political populists who seek to attract voters through grand, largely unrealistic promises. These populists pose a specific danger to BiH, as the people remain highly vulnerable to ethnic tensions propagated by politicians through divisive rhetoric. Secondly, economic growth would reduce the dependence of workers on local, semi-legal entrepreneurs who use their control over the informal labor market to secure political power. In this way, economic development and the resulting deprivation of these economic-political entrepreneurs would generally contribute to political stability. Thirdly, it is also the prerequisite for the distant but omnipresent prospect of EU integration, which constitutes the perceived "light at the end of the tunnel." During virtually all interviews conducted for this Working Paper, officials kept alluding to the prospects of EU accession, despite BiH's current non-compliance with many of the "Copenhagen criteria." Last but not least, Kevin Sullivan of OHR's Economic Transition Unit rightly pointed to a crucial psychological factor: "The point at which (…) one or two sectors begin to excel, is the point at which the population as a whole begins to regard the country in a different light and begins to see Bosnia and Herzegovina (…) as *our* going concern" (Sullivan 2006). Economic success would allow people in BiH a more positive self-conception. It would help foster a sense of ownership across ethnic divides and make people feel as stakeholders in a joint political enterprise.[31]

The aim of this paper was to address the interdependence between the Bosnian economy on the one hand and the peacebuilding process on the other. All three parts argued that the strengthening of formal economic relations, the weakening of links between the economic and political spheres, especially on a local level, as well as the creation of job opportunities could contribute to a great extent to more economic prosperity in BiH and thus to a more successful peacebuilding process. Of course, it is crucial that all parts of society – regardless of age, place of residence and especially ethnicity – have the chance to participate in and benefit from increased economic prosperity, as growing social imbalance might abet violent conflict again. But overall, while the authors recognize that economic prosperity has its own inherent set of risks and problems, the potential benefits to the peacebuilding process could provide a lasting contribution.

Yet, where does Bosnia stand on its way to economic prosperity? Its economy still has not recovered and returned to pre-war levels. People are still waiting for an economic upswing as their daily lives depend on the ability to work and make a living. How many job opportunities can be created is as difficult a question in Bosnia as elsewhere; it may be particularly problematic in this case though, as the only major analyses of the economy seem to be conducted by the World Bank whose policy recommendations have yet to show effects and whose agenda is dominated by a neoliberal ideology. Another challenge lies in the closely interwoven links between the political and economic spheres. As long as local nationalists control most of the informal labor relations, they will maintain an influence over political processes and decisions. Thus, strengthening formal jobs could also mean weakening nationalists' political power.

The question of EU accession fatigue remains a potential obstacle for Bosnia and Herzegovina, as citizens may lose hope in their chances to accede, thereby potentially losing interest in many benchmarks that currently transcend ethnic lines. It seems that there is a specific interest in the integration of BiH, as the EU has already contributed significantly to the peacebuilding process, including the EUFOR mission Althea to oversee the military implementation of the DPA as well as major financial contributions. Nevertheless, a potential timeframe for accession is not yet foreseeable. The question still remains as to whether this will be the true solution or if BiH will simply contribute to the lowering of EU standards while stagnating in its economic development. Considering the uncertainty surrounding the issue of EU enlargement and, even if integrated, the uncertain effects for BiH, the danger remains that Bosnia and Herzegovina turns into a rent-seeking economy with mafia structures where people depend on informal relations to make a living.

31 One could also argue that the link between economic development and sustainable peace in Bosnia and Herzegovina is particularly strong due to the economic interests that contributed to the war. The state of war allowed war entrepreneurs to more effectively combine political power and (local) social influence with economic gain. Profiteers seized the war as an opportunity to gain control over former state production sites to secure their future economic and/or political power; they also cooperated for profit and gained millions of Euros on the black market.

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Abbreviations

BHAS	Agencija za statistiku Bosne i Hercegovine (State-level Agency for Statistics in Bosnia and Herzegovina)
BiH	Bosnia and Herzegovina (state)
DPA	General Framework Agreement for Peace in Bosnia and Herzegovina, also referred to as Dayton Peace Agreement
ESI	European Stability Initiative
EU	European Union
EUFOR	European Union Force
FBH	Federation of Bosnia and Herzegovina (entity)
GDP	Gross domestic product
GTZ	Gesellschaft für Technische Zusammenarbeit GTZ GmbH (German Agency For Technical Development Aid)
HDZ	Hrvatska Demokratska Zajednica (Croatian Democratic Party)
HR	High Representative
ILO	International Labor Organization
NGO	Non-governmental Organization
OHR	Office of the High Representative
OIA	Youth Information Agency in Bosnia and Herzegovina
RS	Republika Srpska
SME	Small and medium-sized enterprises
TI	Transparency International
UNDP	United Nations Development Program
VAT	Value-added tax
WB	World Bank

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